

TAX SUPPLEMENT 1997



<http://www.irs.ustreas.gov>

An IRA Can Lower Tax Bill

For many people who work for companies without a pension plan, setting up an individual retirement arrangement (IRA) can give a double bonus. It can lower their taxes if they make deductible contributions to the IRA and provides for a more secure retirement.

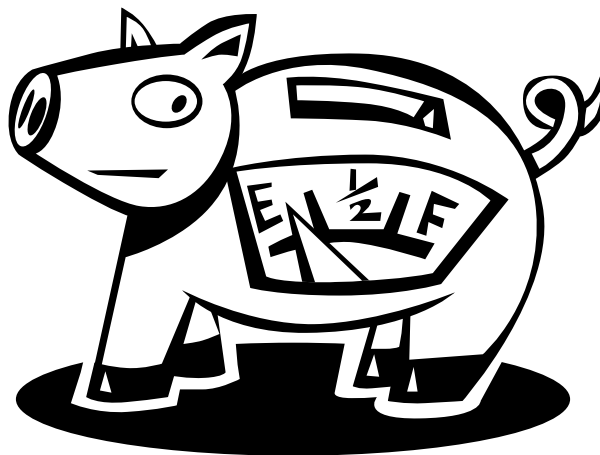
Anyone who has taxable compensation, such as wages, tips, commissions and taxable alimony, and who will be under age 70 1/2 at the end of the year can set up an IRA. Money can be put into an IRA at any time during the year or by the due date of the tax return for that year, not including extensions.

Contributions must be in the form of money, such as cash, check or money order. Property doesn't count. The most that can be contributed for any year is \$2,000 or taxable compensation, whichever is smaller. For married couples who work, the maximum is \$2,000 each. A working spouse can set up a spousal IRA for a spouse who has little or no taxable compensation. The maximum combined contributions to the working spouse's IRA and the spousal IRA is \$2,250. Many people can deduct part or all of their contributions. IRA earnings generally are not taxed until they are withdrawn from the account.

Publication 590, *Individual Retirement Arrangements (IRAs)*, gives more information on IRAs, including how to compute and report deductible and nondeductible contributions, when to start withdrawing money and what actions will result in penalties. Order it by calling 1-800-829-3676.



Can't Pay, File Anyway



Don't let a shrinking wallet turn into a late federal income tax return. The results could make that wallet even emptier.

Once people get behind in their taxes, they often continue to put off filing. But the IRS says that is the worst move a person could make. Although there are penalties and interest for paying late, the penalties for failing to file in the first place are much larger. With each return not filed, the debt piles up. By the time IRS comes looking for the taxpayer, the amount owed may be overwhelming.

To avoid penalty and interest charges, people should pay their tax liability in full. Those who cannot afford to pay what they owe should contact the IRS to discuss payment options such as installment payments and offers to settle their tax account for less than the amount owed. However, the offer must be

in the best interest of both the person and the government.

The bottom line is that it's always better to file and, if necessary, make arrangements to pay rather than waiting for IRS to enforce the tax laws. Consequences for not filing returns or answering IRS letters can range up to an IRS lien against property or, in worst cases, criminal charges.

The IRS has information on the rights taxpayers have when dealing with the IRS and the collection process, how it affects them, and where to go for help if a problem can't get resolved. Details on these topics are covered in Publication 1, *Your Rights As a Taxpayer* (Publication 1SP, *Derechos del Contribuyente*, in Spanish), and Publication 594, *Understanding the Collection Process* (Publication 594SP, *Comprendiendo el Proceso de Cobro*). Call 1-800-829-3676 for copies.

Tax Relief Can Soften Disaster

Losing personal or business property due to a fire, flood, hurricane, theft or other similar event is devastating, but some losses can be recouped through federal income tax breaks.

People who suffer a casualty loss or theft may be able to deduct the loss when they itemize deductions on their tax returns. If the loss happens in an area declared a disaster area by the president, people can

choose to deduct the loss when they file their tax return for the year of the loss, or amend their return for the year before the loss, whichever provides the best tax result.

Details can be found in Publications 547, *Casualties, Disasters, and Thefts (Business and Nonbusiness)*, and 1600 (1600SP in Spanish), *Disaster Losses*. Call 1-800-829-3676.

Tax Changes for 1996



Tax law changes could affect the bottom line of your 1996 income tax return. Here are some changes you should know about.

Each year, there are changes to the tax rules, some due to new laws, some to changes provided for in previous laws. The following are some of the more common changes that could affect most people's income tax returns.

Individual Changes

Personal exemptions are worth \$2,550 for 1996.

For people who do not itemize their deductions, the standard deduction has increased. The new amounts are \$4,000 for single people who cannot be claimed as another person's dependent; \$5,900 for heads of households; and \$6,700 for married people filing jointly or qualifying widow(er)s. People who are at least 65 years old or blind get an extra amount added to their standard deduction. The standard deduction is limited to the larger of \$650 or earned income for people who can be claimed as dependents by another, and to \$3,350 for married persons filing separately.

The earned income tax credit (EITC) will increase in 1996 for working people who qualify. The amount a person can earn and still be eligible for the credit increases, too.

Another change to the EITC relates to people with investment income, such as interest, dividends, rents and royalties. No one who has more than \$2,350 in investment income may claim the EITC.

And finally, the EITC will be denied to any individual who is not authorized to work in the U.S. In order to claim the credit, the taxpayer (and spouse, if married) must have a valid Social Security number.

A valid taxpayer identification number will be required for each dependent or qualifying child as a condition for claiming a dependency deduction or a dependent care credit for the child.

Other changes affecting this year or future tax years will affect punitive damages received for personal injury or sickness, qualified state tuition programs, individual retirement account (IRA) contributions for spouses who do not work, a nonrefundable credit for certain adoption expenses, and medical savings accounts.

Business Changes

The 1996 standard mileage rate for using one's car for business is up a penny to 31 cents a mile. The special rate for rural mail carriers is up to 46.5 cents a mile.

And for 1996, the maximum wages and self-employment income subject to Social Security tax is \$62,700.

The deduction for expenses in maintaining a home office has been clarified to permit a deduction for expenses related to a storage unit regularly used for inventory or product samples for tax years beginning after December 31, 1995.

Employers who were to begin making tax deposits electronically as of January 1, 1997, now have until July 1, 1997, to begin using the Electronic Federal Tax Payment System.

The exclusion for employer-provided educational assistance, which had expired December 31, 1994, has been retroactively extended through taxable years beginning before June 1, 1997.

Other business changes for this year or future tax years affect depreciable property, work opportunity tax credit, orphan drug tax credit, excise taxes and health insurance deductions for self-employed persons.

For more information on tax changes, call 1-800-829-3676 and get Publication 553, *Highlights of 1996 Tax Changes*.

The IRS has tax forms, publications and other information available on-line. Access through the Internet via the World Wide Web (<http://www.irs.ustreas.gov>); file transfer protocol (<ftp.irs.ustreas.gov>); or Telnet (<iris.irs.ustreas.gov>). To access by modem, dial 703-321-8020.

For those with access to a fax machine and not a computer, IRS can provide the most commonly used forms, many of the instruction sheets and the TeleTax topics. Dial 703-487-4160 from the fax machine.

Is it Taxable?

Most people know that wages from a job are part of their income, and if they have enough, they will have to pay taxes on them. But what about profits from hobbies, interest, dividends or unemployment compensation? They are also part of gross income—the same as wages and any other income that's not specifically excluded by law. All gross income is added together to find out if one owes tax and how much. Here are some other examples to consider when filing the 1996 income tax return.



Awards, Prizes and Other Winnings

Awards, prizes from contests or drawings, gambling or other cash winnings are taxable income. Trips, cars and other noncash prizes are included in income at their fair market value.

Tips Are Income, Too

Tips are taxable income and must be reported as wages on the tax return. This includes the value of noncash tips, like passes, tickets, goods or services. Employees must give a written report to their employers each month they get tips of \$20 or more.

Pay Taxes on Odd Jobs, Too

People who make \$400 or more working for themselves or doing jobs on the side will probably owe self-employment tax. This is a Social Security and Medicare tax for people who work for themselves.

They will need to file Form 1040 as well as Schedule SE.

Canceled Debt Is Income

If a financial institution, credit union or government agency cancels or forgives a debt of \$600 or more, the person who owed the money will get Form 1099-C showing the amount. This form is also sent to the IRS. The canceled amount is income and must be reported on the tax return.

Everyone's Income Is Taxable

Anyone who earns or receives income from sources in the United States needs to determine if they must file a tax return. This applies to everyone, not just U.S. citizens or residents.

Foreign Income

U.S. citizens or residents who receive income from outside the United States must report all of it

on the tax return unless all or part of it is exempt by U.S. law.

For More Information

For details, call 1-800-829-3676 to get any or all of the following publications: (English language) 519, *U.S. Tax Guide for Aliens*; 525, *Taxable and Nontaxable Income*; 531, *Reporting Tip Income*; 533, *Self-Employment Tax*; 1244, *Employee's Daily Record of Tips and Report to Employer*; and (Spanish language) 579SP, *Cómo Preparar la Declaración de Impuesto Federal*.

The IRS has tax forms, publications and other information available on-line. Access through the Internet via the World Wide Web (<http://www.irs.ustreas.gov>); file transfer protocol (<ftp://ftp.irs.ustreas.gov>); or Telnet ([iris.irs.ustreas.gov](telnet://iris.irs.ustreas.gov)). To access by modem, dial 703-321-8020.

Fund the Election 2000

The 1996 presidential election may just have past, but people still have a choice. What is it? Whether \$3 of their federal tax will go to the Presidential Election Campaign Fund for next time. They make their choice by checking the "yes" or "no" box on their tax return.

Checking the yes box does not increase the amount of tax owed or decrease the amount of refund due back.

Congress set up the checkoff in the early 1970s as a way to help fund presidential elections. The funds help place presidential candidates on an equal financial footing in a campaign. Candidates may spend the funds on campaign expenses only. Money that a candidate does not spend on the campaign must be returned to the U.S. Treasury for the next election four years later.

Can't File Now?

People who can't meet the tax filing deadline can send Form 4868 to the IRS and get a four-month extension of time to file. But, along with the form, they should send in the estimated tax they owe. People who can't pay the full amount should still send in the form, and pay as much as possible, because the penalty for not filing, or filing late, is higher than the penalty for paying late. And the IRS charges interest on any taxes paid after the due date.

Report Alimony

Whether you receive or pay alimony, report it on Form 1040. If you paid alimony, you may be able to deduct it; if you get alimony, it is taxable income. In either case, you must use Form 1040; you cannot use Form 1040A or 1040EZ. Publication 504, *Divorced or Separated Individuals*, explains these tax rules. Call 1-800-829-3676 for a copy.

Household Employees

If you earn \$1,000 or more working at someone's house and are not in business for yourself, you may be an employee of the homeowner. Examples of household employees include babysitters, butlers, caretakers, cooks, drivers, gardeners, housekeepers and maids. Call 1-800-829-3676 and get Publication 926 for tax rules about household employees.

Age Has Its Tax Benefits



There are benefits to getting older, at least when it comes to taxes. Some tax benefits become available starting at age 55.

A once-in-a-lifetime tax break is available to people age 55 or older. Those who are selling their personal residence may qualify for the exclusion of up to \$125,000 of gain on the home sale. Certain use and ownership restrictions apply, and there are special rules for persons with disabilities and for widows or widowers.

People age 60 or older can get help with their tax returns from Tax Counseling for the Elderly (TCE). Through TCE, volunteers from many organizations provide free tax information and guidance. Local IRS offices have information on TCE locations.

Seniors age 65 or older may not have to file a tax return if their income is less than a certain amount. For 1996, that amount for single seniors is \$7,550. The limit for a married couple filing a joint

return is \$12,600 if only one spouse is a senior, and \$13,400 if both are seniors.

Those who don't itemize deductions get a higher standard deduction than people under 65. And those who are blind get an extra added amount.

Seniors or people with disabilities may qualify for the credit for the elderly or the disabled. This credit is based on age, income and filing status, and can reduce the amount of taxes owed. Those under 65 could be eligible if they retire with total and permanent disability and have income from their employer because of that disability.

The IRS considers persons to be age 65 on the day before their 65th birthday. So to the IRS, those who turn 65 on January 1, 1997, are age 65 on December 31, 1996.

For more information, get Publication 554, *Tax Information for Older Americans*, and Publication 910, *Guide to Free Tax Services*. Call 1-800-829-3676.

Some Workers Get Tax Credit

Some workers could increase their income this year with a tax credit. The earned income tax credit (EITC) could be worth a few dollars or as much as \$3,556.

While the EITC is a tax credit, a worker does not have to owe tax to get it. Even people who have never filed a tax return before, and who do not earn enough income to file one this year, could receive the credit. For those who qualify, all it takes is a tax return to get their EITC refund in the mail.

The credit is based on income and the number of qualifying children a person has living with him or her in the United States for more than half the year, or for the whole year if they have foster children. Workers who do not have a qualifying child may also receive a credit of up to \$323.

Those who are in the U.S. military on extended active duty outside the United States are considered to live in the United States during that duty period and may be able to get the EITC as long as all other rules are met. Also, workers who are nonresident aliens for any part of the year cannot claim the credit unless they are married to a U.S. citizen or resident and choose to be treated as a



resident alien for the entire year.

All workers must have earned income from wages or self-employment. Their income must be less than \$28,495 if they had two or more qualifying children, less than \$25,078 if they had one qualifying child. Workers with no children must earn less than \$9,500, be at least age 25 and under 65, not be eligible to be a dependent and their main home must be in the United States for more than half the year. No one with more than \$2,350 in

investment income, such as interest or dividends, may claim the EITC.

Working families who will earn less than the 1997 income limits and have at least one qualifying child may be able to receive their EITC payments as part of their paychecks. Details are on Form W-5, "Earned Income Credit Advance Payment Certificate," which they must give to their employers. Based on the amount of an employee's earnings, the employer adds a certain amount of money, which is actually a portion of the EITC, to the employee's pay. This advance EITC option gives workers access to additional money throughout the year, rather than in a lump sum in April.

Workers should be careful to use the correct Social Security numbers when filling out tax forms and schedules. "If they don't," the IRS says, "their tax returns and any refunds due may be delayed while their return is being corrected."

For more information on the earned income tax credit, call the IRS at 1-800-829-3676 and ask for a copy of Publication 596, *Earned Income Credit*, or 596SP, *Crédito por Ingreso del Trabajo*, in Spanish.

Get Receipts for Charity Gifts

People who made contributions to qualified charities in 1996 may need a written acknowledgment from the organization if they want to deduct the payments on their tax returns. Contributions of \$250 or more, or over \$75 if they are partly contribution and partly for goods or services received, must be backed up by a written statement from the organization. The statement should describe the contribution, and give a good faith estimate of the value of any goods or services received for the payment. For more info, call 1-800-829-3676 and get the English-language Publication 526, *Charitable Contributions*.



Taxes in the Home

Buying? Selling? Somewhere in between? Home ownership and one's tax return go hand in hand.

Whether a person is just now buying a first home, living in a home for some time, or in the process of selling one, home ownership can have significant effects on income tax returns.

Buying a Home

Some of the settlement fees or closing costs paid at closing can be deducted in the tax year the house is bought. These costs include certain real estate taxes, mortgage interest and points that meet certain requirements.

Other costs may be included in the basis of the property. Basis, in general, is the way to measure the investment in a home for tax purposes. Costs like abstract and recording fees, surveys and

owner's title insurance are included in the basis.

Owning a Home

For those who itemize deductions, interest on most mortgages secured by a person's first or second home is deductible. In addition, qualifying points on a loan used to improve their main home are usually deductible.

Real estate taxes, imposed by state or local governments for the general public welfare, are usually deductible.

Selling a Home

Generally, no taxes are due on the sale of a person's home, regardless of the amount of profit made, if the seller buys and lives in a new home within two years of the date of sale. The new home must cost at least as much as the adjusted sales price of the old home.

Persons 55 or older may get a once-in-a-lifetime exclusion from gross income of all or part of the gain when they sell their homes. In general, seniors may qualify if they have owned and lived in their home at least three out of the past five years and have never used this exclusion for another sale after July 26, 1978.

More Information

More information on buying, owning or selling a home may be found in the following publications, available in English only. Call 1-800-829-3676.

Publication 523, *Selling Your Home*

Publication 530, *Tax Information for First-Time Homeowners*

Publication 936, *Home Mortgage Interest Deduction*

Employers in the Home

The IRS says, "Don't let employment taxes take you by surprise. Find out who's a household employer and who's not."

Many people don't think of their own household when thinking about employers. But employers can be anywhere, even at home. All it takes is a household employee, such as a maid, cook or gardener.

The basic difference between a maid, or other worker, who is an employee and someone placed by an employment service that provides household help is the degree of control. An employment service usually controls what work is done and how it is done. Usually, the service provides needed tools and pays the workers. However, when homeowners hire maids—or babysitters, cooks or gardeners—and can fire them, too; when they can control what work is done and how it is done, they become household employers.

Employers have tax responsibilities that other people do not. Generally, they need an employer



identification number (EIN) that they can apply for by mail or by telephone. They must usually keep a record of the name and taxpayer identification number of each employee for tax purposes. Household employers may have to withhold Social Security and Medicare tax from employee wages, as well as pay an equal amount from their own funds. Federal income tax must be withheld if the employee asks for it and the employer agrees.

Finally, depending on the amount of wages paid to employees, household employers may have to pay Federal Unemployment Tax (FUTA), or advance payment of the earned income tax credit if the employee qualifies for it.

For specific information on household employment taxes and on getting an EIN, call 1-800-829-3676 and ask for Publication 926, *Household Employer's Tax Guide*.

Taxpayers Have Rights

In any dealing with the IRS, people are entitled to fair treatment by IRS employees, privacy, representation and the right to appeal an IRS examiner's findings. If their problems are not solved through normal IRS channels, people can get special help through the Problem Resolution Office. Want more info? Call 1-800-829-3676 for Publication 1, *Your Rights as a Taxpayer*.

Child Care Lowers Taxes

The credit for child and dependent care expenses can lower taxes for those who work or are looking for work and who pay someone to care for a child or dependent. The credit can equal up to 30 percent of the expenses paid to care for a child under age 13 or a spouse or dependent who is not capable of self care. Figure the credit on Form 2441 with Form 1040 or on Schedule 2 with Form 1040A.

Estimated Tax for 1997



People who will owe at least \$500 in federal income tax for 1997, after subtracting withholding and credits, may need to estimate taxes before their annual return is due.

Estimated tax is the way to pay tax on income that is not covered by withholding. Such income may include self-employment income, interest, dividends, alimony, rents and awards. Generally, if the amount of income tax withheld from salary, pension or other income is not enough to cover 90 percent of the total amount of taxes due, estimated tax payments should be made.

To figure and pay estimated tax, use Form 1040-ES, "Estimated Tax for Individuals," which includes a

worksheet to help calculate the required payment.

People who need to pay estimated tax on income received during January through March must make the first payment by April 15, 1997. They can pay the whole year's estimated tax at that time or pay in four installments. Each payment must be sent with a payment voucher from Form 1040-ES. The other installment due dates are June 16, September 15, and January 15 of the next year.

More information about estimated tax is available in Publication 505, *Tax Withholding and Estimated Tax*. Call 1-800-829-3676 to order Form 1040-ES and the publication.

Taxes and the "Golden Years"

As a retired federal employee (civilian or military), you worked hard over the years to earn your federal annuity. But, before you begin enjoying your golden years, you might want to make sure your financial house is in order. This includes keeping abreast of tax concerns and responsibilities. For a brief overview of taxes on federal retirement pay, call the IRS at 1-800-829-3676 and ask for Publication 1798, *Retiring Qs & As*. For more detailed information, get Publications 721, *Tax Guide to U.S. Civil Service Retirement Benefits*, and 525, *Taxable and Nontaxable Income*.



Farming, Fishing and Estimated Tax

Farmers and fishermen may be eligible for paying estimated tax in one lump sum.

Most people who pay their income taxes through estimated tax payments do so four times a year. Farmers and fishermen may be able to pay their estimated taxes in one lump sum.

To qualify, at least two-thirds of a person's gross income must have come from farming or fishing either in the current year or the previous year.

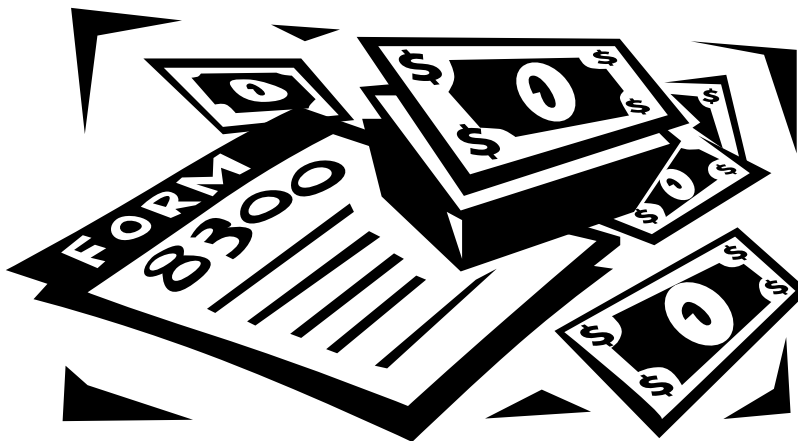
Those who qualify can pay all their estimated tax by January 15, 1997, and file their 1996 Form 1040 by April 15, 1997. Or, they can file their 1996 Form 1040 by March 3, 1997, and pay all the tax due with the return.

People who don't meet the two-thirds of gross income rule must follow the regular estimated tax payment rules.

For details on estimated taxes, call the IRS at 1-800-829-3676 and order Publication 225, *Farmer's Tax Guide*; Publication 51, *Agricultural Employer's Tax Guide (Circular A)*; Publication 595, *Tax Highlights for Commercial Fishermen*; or Publication 505, *Tax Withholding and Estimated Tax*.



Keep Your Money "Clean"



Report All Large Cash Transactions

Is the money moving through your business being laundered? People may think only criminals launder money, but even money earned in otherwise legitimate activities is sometimes laundered, or hidden, to avoid taxes. Any business, not just high price ones such as auto and boat dealers, auction houses, jewelers, art and antique dealers, law firms, real estate or insurance agencies, can be used by people who want to launder their money.

Congress passed laws requiring trades or businesses receiving cash payments of over \$10,000 to report them to the Internal Revenue Service (IRS). This means more than \$10,000 in either a single transaction or a series of related transactions that total more than \$10,000 during a 12-month period.

These transactions are reported on Form 8300, "Report of Cash Payments Over \$10,000 Received

in a Trade or Business," and must be filed with the IRS within 15 days after receiving payments totaling over \$10,000. Business owners can voluntarily file Form 8300 if they think any cash payment they get is suspicious. Financial institutions, such as currency exchanges and check-cashing businesses, file similar currency transaction reports (CTRs) under the Bank Secrecy Act (BSA) with the IRS.

Those who do not comply with the reporting requirements may face civil penalties. Corporations or persons who willfully try to evade the reporting requirements or file false or fraudulent reports may face criminal penalties of prison sentences up to five years, fines up to \$500,000 or both.

More information on reporting large or suspicious cash payments is in Publication 1544, *Reporting Cash Payments of Over \$10,000*. Both the publication and Form 8300 can be ordered by calling 1-800-829-3676.

Tax Guide for Small Business

Keeping up with all the taxes for a small business isn't easy. The IRS has a publication that helps explain the tax responsibilities of small businesses that are operated as sole proprietorships. Call 1-800-829-3676 and ask for Publication 334.

Business Expenses

Before you take a tax deduction on that business trip or dues for the club where you take clients, check out the rules. Get information on travel, entertainment, gift and car expenses. Call the IRS at 1-800-829-3676 to receive a copy of Publication 463.

New Law Gives Tax Refunds to Some Employees

Employees who participated in employer-provided educational assistance plans in 1995 or 1996 could be entitled to refunds because of recent tax law changes. The Internal Revenue Service has set up special procedures to make it easier to get these refunds and to expedite the processing of refund claims sent to the IRS.

The new law reinstates Internal Revenue Code Section 127's annual exclusion from income of up to \$5,250 of educational assistance benefits, retroactive to January 1, 1995. However, the new law does not extend the tax benefit to graduate-level courses that begin after June 30, 1996.

Employees who paid income taxes for 1995 on excludable educational assistance benefits are entitled to refunds. Employees can claim these refunds from the IRS by filing a Form 1040X, "Amended U.S. Individual Income Tax



Return," if they have already filed a 1995 tax return. To do this, the employee needs to obtain from the employer a Form W-2c, "Statement of Corrected Income and Tax Amounts," showing the corrected wages for 1995, and needs to attach the Form W-2c to the Form 1040X.

To expedite the processing of these amended returns, taxpayers

should print "IRC 127" in the top margin of the Form 1040X. If this is the only adjustment to the original return, taxpayers will need to put only their name, address, Social Security number and tax year on the Form 1040X, sign the form, and attach the Form W-2c. The IRS will compute the refund based on the Form W-2c data provided and will process these amended returns as quickly as possible.

Employees who previously paid Social Security and Medicare taxes in 1995 or 1996 will usually get these tax refunds from the employer that provided the educational assistance.

Taxpayers may obtain Form 1040X and instructions by calling 1-800-829-3676, or by using their computers to access the IRS home page at <http://www.irs.ustreas.gov> or the Internal Revenue Information System bulletin board at 703-321-8020 (not a toll-free number).

Bartering Is Business

Returning a favor for a favor is common practice among neighbors. Just remember that trading, or bartering, jobs that would otherwise produce income is taxable by law.

Bartering, or trading property or services for something of equal or near value, is a popular way of stretching one's income. However, just like other forms of income,

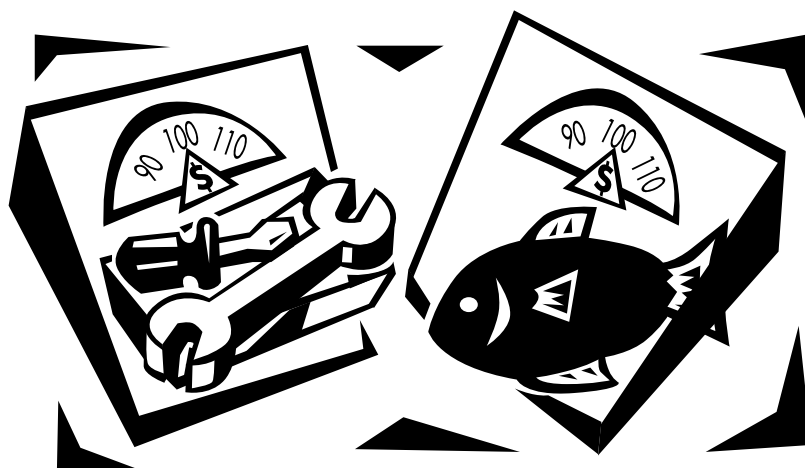
bartering income must be included on one's federal income tax return.

Bartering may be going on in your community. For example, a person who operates a small fishing business and whose car needs some repairs may barter with a neighbor who runs a car garage in exchange for a summer of free salmon and trout. The fair market value of both

the repair and the seafood must be reported as income by the recipients.

Fair market value for the repair is what an unrelated person would have paid if he went to the car garage for the job. The fair market value of the seafood would be what the fisherman would have charged a stranger for them. If the parties agree ahead of time on the value of the products or services being traded, that value will be accepted unless it can be proven otherwise.

Anyone who barter through a barter exchange should receive a Form 1099-B, "Proceeds from Broker and Barter Exchange Transactions," or similar statement, by January 31 of the following year. The statement will generally show the value of cash, property, services, credits or scrip received from exchanges during the year. For more information, get English-language Publication 525, *Taxable and Nontaxable Income*, by calling 1-800-829-3676.



Simpler Schedule C-EZ

The IRS has made some changes to Schedule C-EZ, "Net Profit From Business." The \$25,000 gross receipts limit is gone and the business expenses limit increased to \$2,500. These changes will let about 400,000 small business owners join the 3 million who already use this simplified form to report their profits.

Workers' Tips Are Taxable

Tips that workers get are taxable income. If tips total \$20 or more a month while working for one employer, workers must report them to the employer. Employers must withhold federal income, Social Security and Medicare taxes on those tips. Then employers must file Form 941 to report the withholding to the IRS. For a brief overview, call 1-800-829-3676 and ask for *Tips on Tips* (Publication 1872 for employees or 1875 for employers). Or to get all the details, ask for Publication 15, *Circular E, Employer's Tax Guide*.

Farmer's Tax Guide

The IRS has a publication to help farmers fill out their farm tax returns and figure their taxes. Call 1-800-829-3676 and ask for Publication 225.

Tax Q&A's for Commercial Fishermen



The following questions and answers may help fishermen prepare their income taxes this year. For more information relating to fishing and business, call the IRS at 1-800-829-3676 and order Publication 595, *Tax Highlights for Commercial Fishermen*, and Publication 334, *Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)*.

Q. My dock was damaged and my boat was sunk by a hurricane this year. The president declared the county a disaster area. What does that mean?

A. Your area qualifies for federal disaster assistance. If you have a deductible loss, you can choose to amend last year's tax return and get a refund right away. Or you can wait until you file your return for this year, when the loss happened.

Q. Can I deduct the wages I pay my employees?

A. You can usually deduct wages, salaries and other forms of compensation paid to employees as business expenses if they are ordinary and necessary expenses of carrying on your fishing business. They also have to be a reasonable amount, for personal services performed, and paid or incurred during the tax year.

Pay to relatives who work for you is deductible if it meets the above requirements. But you can't

deduct your own salary or any other withdrawals you make for personal use.

Q. A friend offered to salvage my boat in exchange for part of my next catch. Is that kind of deal considered income?

A. Yes. Whenever you trade property or services for something of equal or near value, it's called bartering. That income must be reported on your tax return. The amount you include as income is what you would charge a stranger for the fish, and the amount your friend would include is what someone else would pay to salvage their boat.

Q. I heard about a Capital Construction Fund (CCF). What is it?

A. The CCF is an investment program administered by the National Marine Fisheries Service and the IRS. It lets commercial fishermen enter into an agreement to invest part of their income in an interest-bearing trust fund such as savings accounts, stocks or bonds. The funds are to be used to buy or build a new fishing vessel or to reconstruct or recondition one that is already owned.

Certain requirements must be met to qualify for a CCF. And if you enter into an agreement, you can usually deduct the investment from taxable income.

Claim That Dependent

The benefits in claiming a child as a dependent on a tax return are apparent—lower taxes. However, there are rules that must be followed to claim another person, even a son or daughter, as a dependent on a tax return.

In order to claim a dependent, that person must meet five tests: the member of household or relationship test, the citizenship test, the joint return test, the gross income test and the support test.

Household or Relationship Test

Dependents must live with the taxpayer for the entire year or be closely related to the taxpayer, such as sons and daughters, parents, grandparents and some other relatives.

Citizenship Tests

Generally, dependents must be U.S. residents or citizens, or residents of Canada or Mexico.

Joint Return Test

Married dependents may not file joint returns. The only exception is for those who file a return only to get back a tax refund (neither husband nor wife has enough income to require filing of a tax return).

Gross Income Test

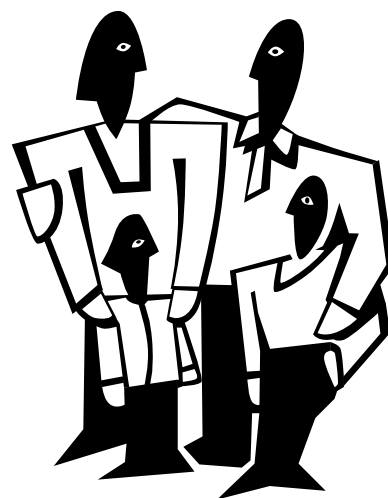
Dependents must have less than \$2,550 income during the year, unless they are the taxpayer's child and are either under age 19 at the end of the year or under age 24 and a full-time student for some part of each of five months of the year.

Support Test

Finally, taxpayers usually must pay more than half the cost of supporting their dependents for the year. There are different rules for children of divorced or separated parents.

In addition to the five tests, taxpayers must have a Social Security number (SSN) for each dependent who was born before December 1996. Form SS-5, "Application for a Social Security Card," available from the Social Security Administration, is used to apply for a number. For alien dependents who do not qualify for an SSN, Form W-7, "Application for IRS Individual Taxpayer Identification Number," may be sent to the IRS to get individual taxpayer identification numbers (ITIN).

Tax returns without correct SSNs or ITINs will not be processed until



the numbers are verified, which means any refunds will be delayed.

For more information on dependency tests and exceptions, see English-language Publication 501, *Exemptions, Standard Deduction, and Filing Information*, or Spanish-language 579SP, *Cómo Preparar la Declaración de Impuesto Federal*. Resident and nonresident aliens should also see English-language Publication 519, *U.S. Tax Guide for Aliens*, for information on dependents. Call 1-800-829-3676 to order.

Taxes and the Working Student

You're a full-time student with a part-time job and, suddenly, taxes are no longer just something your parents have to do.

Filing income tax returns isn't just for those with full-time jobs. High school and college students with part-time jobs, taxable scholarships, or interest or dividends may have to file, too.

Even students who can be claimed as dependents on other people's tax returns should check the tax instructions. They will need to file a return if their income goes over a certain amount. Students who don't have enough income to file, but who had taxes withheld from their paychecks during the year, may want to file to get a refund.

The kinds of income students may have to pay tax on includes wages, tips, self-employment income, investment income (including interest on a bank account), and taxable scholarships and fellowships. When students begin working, they fill out a Form W-4, "Employee's Withholding Allowance Certificate," to help their employer figure the amount of taxes, if any, to withhold from their paychecks.

At the beginning of the new year, students with income over the limit that applies must file a tax return. Most students can use Form 1040EZ. It's the shortest, simplest form. But if their income includes over \$400 of taxable interest or any amount of dividends, students must use Form 1040A. Or, if they had



any self-employment income, they must use Form 1040.

Many students may be able to use the IRS TeleFile system to file returns over the phone. Those who are eligible for this program will get a special TeleFile tax booklet. Follow the instructions in it.

To find out for sure who should file, order Publication 501, *Exemptions, Standard Deduction, and Filing Information*. Call 1-800-829-3676.

Child's Income on Parent's Return

Some parents may choose to include a child's investment income on their return. That means the child does not have to file. But before choosing to do this, parents should figure their tax and the child's tax separately to see which way provides the lowest tax. For details, get Publication 929, *Tax Rules for Children and Dependents*, in English only.

Dependent May Have to File

Dependents must follow specific rules to figure whether they have to file a tax return. The amount and type of income and whether they are married, age 65 or older, or blind are all taken into account. For details, get Publication 929, *Tax Rules for Children and Dependents*, in English only.

Babies Need SSNs

To claim an exemption for any dependent born before December 1996, you must list the dependent's Social Security number (SSN) on your tax return. To get one, contact the nearest Social Security Administration office for Form SS-5, "Application for a Social Security Card." Always double-check each SSN on all tax forms and schedules. If the dependent is not eligible for an SSN, you must list an individual taxpayer identification number. Use Form W-7 to get one.

Final Income Tax Return Due



As strange as it may seem, tax obligations do not end at death. If people have enough income before dying to require tax returns, then their families or executors must file a final income tax return to report that income and pay any taxes or claim any refund due.

And depending on when a person dies, more than one tax return may need to be filed. For a calendar year taxpayer who dies between January 1 and April 15 without filing the previous year's return, two income tax returns are due. The first is due by April 15 of the year of death. The second and final return is due by April 15 of the following year to report any income and deduct any expenses the decedent (person who died) had between January 1 and the date of death.

All these things can be handled by a personal representative of the decedent's estate: an executor, an administrator, or anyone who is in charge of the decedent's property.

If taxes are owed, the representative must collect them from the estate and send a check with the tax return to the Internal Revenue Service. If a refund is due, the

representative must attach to the return a copy of the court certificate showing his or her appointment as representative. This certificate authorizes the IRS to make the refund payment to the decedent's estate. A power of attorney or copy of the will is not acceptable. For those who are not court-appointed or certified personal representatives, a Form 1310, "Statement of Person Claiming Refund Due a Deceased Taxpayer," may be required.

Usually a surviving spouse can file a joint return for the decedent if he or she did not remarry in the year of death. Making a payment or claiming a refund is handled the same way as if the decedent were still living. The surviving spouse does not need to file Form 1310.

The surviving spouse or representative should immediately give notice of the death to all parties, including financial institutions, who paid income to the decedent. This will ensure the proper reporting of income earned by the estate or heirs.

A person's death can also affect the tax returns of the heirs and the estate. It may be wise to have the representative coordinate the filing of all tax returns to make sure they are done correctly.

For more information on the duties and responsibilities of the personal representative, get Publication 559, *Survivors, Executors, and Administrators*, by calling 1-800-829-3676.

Dependents Claimed Only Once

People who share custody or support of a dependent should make sure that only the person who is entitled to the exemption claims the dependent. No one may be claimed on more than one tax return. For example, divorced par-

ents who have joint custody of their child must determine each year which parent qualifies to claim the dependent. Call 1-800-829-3676 for Publication 501, *Exemptions, Standard Deduction, and Filing Information*.

Nonresident Aliens: Late Filing May Put Tax Deductions at Risk

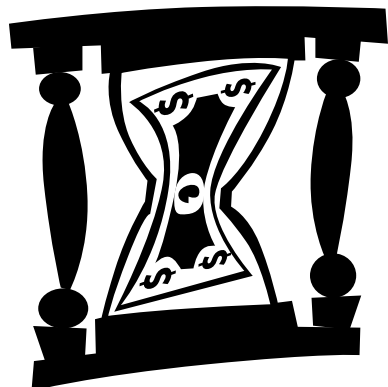
Nonresident aliens and foreign corporations in the U.S. must file their tax returns by the due date to avoid late penalties and interest. However, if their returns are still not filed within certain time limits after the due date, they risk losing certain tax deductions and credits.

Foreign corporations required to file a Form 1120F, "U.S. Income Tax Return of a Foreign Corporation," for the first time either this year or last year must file within 18 months after the due date of their current Form 1120F to avoid losing tax deductions or credits.

Foreign corporations not filing for the first time either this year or last year have an additional time factor to consider. They must file their returns by the earlier of 18 months after the current year tax due date, or by the date the IRS notifies them that their return has not been filed, or the credits and deductions may not be claimed.

Nonresident alien individuals who must file Form 1040NR, "U.S. Nonresident Alien Income Tax Return," have the same basic criteria except they have only 16 months to file their return before losing tax deductions or credits.

Additional information is available by writing to the IRS, Assistant Commissioner (International), Attention: CP:IN:D:CS, 950 L'Enfant Plaza South, S.W., Washington, DC 20024, USA.



Easier Tax Form for Some Nonresident Aliens



The Internal Revenue Service has a simpler tax form for nonresident aliens with simpler tax reporting requirements. It's Form 1040NR-EZ, "U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents."

Besides having no dependents, nonresident aliens must meet certain other conditions to file their taxes using Form 1040NR-EZ.

They cannot be claimed as a dependent on someone else's return. They are under age 65 on January 1, 1997, and not blind at the end of 1996. Their taxable income is less than \$50,000, and comes only from wages, salaries, tips, refunds of state and local income taxes, and scholarship or fellowship grants. They are

not claiming any itemized deductions other than state and local income taxes paid, credits, or any exclusions from income other than scholarship and fellowship grants. They have no "other taxes." Married nonresident aliens from Canada, Mexico, Japan, or the Republic of Korea, a U.S. national, or an Indian student claiming a spousal exemption may not use Form 1040NR-EZ.

If these conditions aren't met, then use Form 1040NR, "U.S. Nonresident Alien Income Tax Return." To get the forms and instructions, write to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

U.S. Rental Property Taxable to Nonresident Aliens

Nonresident aliens must pay a 30-percent flat tax on their U.S. rental property income. They pay this tax in the year in which they receive the income.

There is, however, an exception that allows nonresident aliens to claim a deduction for rental expenses and be taxed at graduated rates. They can elect to treat rental income from real property as income effectively connected with a trade or business. Those electing to claim deductions on rental property must attach a statement to their tax return saying so.

Nonresident aliens must file their

taxes using Form 1040NR, "U.S. Nonresident Alien Income Tax Return." They also must file Schedule E to reflect the income and expenses of their rental property, and Form 4562 to report allowable depreciation. File all forms and schedules by the due date.

More information is available in IRS Publication 519, *U.S. Tax Guide for Aliens*. Get this publication and any necessary tax forms and instructions by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

U.S. Gift and Estate Taxes for Nonresident and Resident Aliens



Gifts valued at \$10,000 or more to any one person in one year must be reported to the Internal Revenue Service. It may even be necessary to pay taxes on these gifts. This applies to gifts of any property by U.S. citizens or residents, and to gifts of U.S. real property or tangible personal property by nonresident aliens. Use Form 709, "United States Gift Tax Return," to report gifts.

When a nonresident alien dies with over \$60,000 in U.S. assets, Form 706NA (nonresident alien), "U.S. Estate Tax Return," must be filed with the IRS. Also, when a U.S. citizen or resident dies with over \$600,000 in worldwide assets, Form 706, "U.S. Estate Tax Return," must be filed.

For information on gift and estate taxes, get IRS Publication 950, *Introduction to Estate and Gift Taxes*, the forms and instructions by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

Postpone Tax on Home Sale Profits

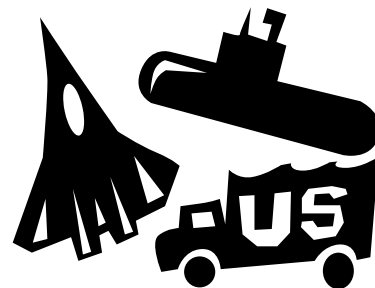
People who sell their homes at a profit may usually postpone payment of taxes on the profit if, within two years of the sale, they buy a new home. This replacement home must cost at least as much as the sale price, minus certain adjustments, of the old home. However, U.S. taxpayers moving overseas to work may be able to postpone the payment of taxes on their profit while they are out of the United States.

To qualify, taxpayers must move overseas to work within two years of the time their home was sold. The timeframe for civilian U.S. taxpayers to replace their home is suspended while they are out of the U.S. but, overall, cannot be longer than four years from the date they sold their old home. Military personnel overseas may have up to eight years to purchase and move into a new home in order to defer paying tax on the gain from the sale of their old home. This extension also applies to those military personnel living in base housing at a remote site after being stationed overseas.

IRS Publication 523, *Selling Your Home*, contains details on this subject. It is available by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.



Tax Info for the Military



Different tax rules can apply to military personnel that don't apply to civilians. The Internal Revenue Service has a publication that explains these rules, such as the combat zone exclusion, extension of time to file income tax returns and what to include in gross income. It also discusses the tax relief provisions for troops involved in the peace-keeping efforts in Bosnia, Herzegovina, Croatia and Macedonia.

For details, get IRS Publication 3, *Armed Forces Tax Guide*. Write to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.



Check IDs Before Traveling

To apply for a passport, travelers heading overseas must provide their Social Security number and related identification information to the U.S. State Department. This data can be used by the Internal Revenue Service to check the status of the traveler's tax records.

Residents Abroad Get Some Tax Relief

U.S. citizens and resident aliens who live abroad may have to file U.S. income tax returns. People with permanent U.S. resident status are subject to tax on their worldwide income just the same as U.S. citizens.

Being out of the country does not change the U.S. resident status of green card holders. They are still liable for filing U.S. tax returns and could end up with sizeable penalty and interest payments if they don't file and pay their taxes due.

However, the foreign earned income exclusion can provide some relief to taxpayers living and working in a foreign country. To qualify for the exclusion, they must have a tax home in a foreign country and be a resident of that country or meet a physical presence tax test.

Those who qualify can subtract up to \$70,000 of foreign earned income from their U.S. gross income, or up to \$140,000 when both spouses qualify. U.S. government employees are not eligible for the exclusion, but some independent contractors working for the U.S. government may qualify.

To claim the exclusion, file Form 1040 and attach Form 2555, "Foreign Earned Income," or 2555EZ, "Foreign Earned Income Exclusion." Those who are late in filing may still be able to claim the exclusion for prior years, provided that they file before the IRS discovers their failure to elect the exclusion.

The necessary forms and IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, are available by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

Taxpayers Overseas Get Filing Extension



Some people have until June 16 to file their income tax return this year. The Internal Revenue Service allows an automatic two-month extension to people living and working outside the United States on April 15. To get the extension, they should include a note with their return when it is filed stating that their tax home was in a foreign country on April 15.

Taxpayers abroad can also extend the due date to August 15 by filing Form 4868, "Application for Automatic Extension of Time to File U.S. Individual Income Tax Return." The form must be filed by June 16.

Still another two-month tax filing extension, to October 15, is available on a case-by-case basis. File Form 2688, "Application for Additional Extension of Time to

File U.S. Individual Income Tax Return," no sooner than 30 days following the filing of the automatic extension Form 4868.

IRS emphasizes that all these extensions are only extensions of time to file a complete tax return. Any tax due should be estimated and paid on the April 15 due date to avoid interest charges and late payment penalties. However, an extension application can be submitted even if those applying don't have the money to include a tax due payment.

IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, gives more information on extensions. Get it by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

Foreign Tax Credit or Deduction Available

Paying income taxes to a foreign country or U.S. possession? Some people may qualify for either a tax credit or a deduction for those foreign tax payments when it comes time to pay their U.S. taxes.

The foreign tax credit is usually the best choice. According to the IRS, the foreign tax credit directly reduces a person's U.S. tax liability. When the foreign tax payment is taken as a deduction, taxable income is lessened by the amount of foreign income tax.

The IRS suggests taxpayers figure their taxes both ways to

determine which works the best for them.

Taxpayers cannot take credits or deductions for foreign taxes paid on income that is excluded from U.S. taxation, such as the foreign earned income exclusion, the foreign housing exclusion, or the possession exclusion.

More details on these deductions are available in IRS Publication 514, *Foreign Tax Credit for Individuals*. Get it through the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

Foreign Treaties Benefit U.S. Taxpayers

The United States has tax treaties with over 40 countries. U.S. citizens and residents with income from any one of those countries may be entitled to various foreign tax benefits that prevent double taxation—paying tax on the same income to both the United States and the treaty country.

These treaties entitle people to certain credits, deductions, exemptions, and reductions in the tax rate of those foreign countries. They may also provide similar benefits for residents of foreign countries who owe U.S. taxes. However, these treaties generally do not affect the U.S. tax of U.S. citizens and residents.

In 1996, new or updated treaties entered into force between the United States and France, Canada, Portugal, Sweden and Mexico. The U.S.—Netherlands treaty, as it extended to Aruba, and the U.S.—Malta treaty will no longer be in effect after 1996. Questions on all tax treaties can be sent to IRS, Assistant Commissioner (International), Attention: CP:IN:D:CS, 950 L'Enfant Plaza South, S.W., Washington, DC 20024, USA.

For details on tax treaties and conventions, get IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, and Publication 901, *U.S. Tax Treaties*, by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

IRS Is International

Located abroad? Here's where U.S. taxpayers can find help from the Internal Revenue Service.

Bonn

United States Embassy/IRS
Deichmanns Aue 29
53179 Bonn
Federal Republic of Germany
Tel.#[49](228)339-2119
FAX#[49](228)339-2810

London

United States Embassy
24/31 Grosvenor Square
London, England W1A1AE
Tel.#[44](171)408-8077
FAX#[44](171)495-4224

Mexico City

United States Embassy—IRS
Apartado Postal 88—BIS
Delegacion Cuauhtemoc
06500 Mexico, D.F., Mexico
Tel.#[52](5)211-0042,
ext. 3557 or 3559
FAX#[52](5)208-2494

Ottawa

U.S. Internal Revenue Service
60 Queen Street
Suite 201
Ottawa, Ontario, Canada
K1P 5Y7
Tel.#[613]563-1834
FAX#[613]230-1376

Paris

United States Consulate
2,rue St. Florentin
75001 Paris, France
Tel.#[33](1)4312-2555

Rome

American Consulate/Rome
Via Veneto, 121
2nd Floor
Rome, Italy 00187
Tel.#[39](6)4674-2560
FAX#[39](6)4674-2223

Santiago

United States Embassy
Av. Andres Bello 2800
Las Condes
Santiago, Chile
Tel.#[56](2)330-3424
FAX#[56](2)330-3159

Singapore

American Embassy/IRS
27 Napier Road



Singapore 258508
Republic of Singapore
Tel.#[65]476-9413
FAX#[65]476-9030

Sydney

American Consulate General, IRS
Level 59, MLC Center
19-29 Martin Place
Sydney, NSW 2000
Australia
Tel.#[61](2)9373-9194
FAX#[61](2)3233-4445

Tokyo

United States Embassy—IRS
10-5 Akasaka, 1-chome
Minato-ku, Tokyo 107
Japan
Tel.#[81](3)3224-5466
FAX#[81](3)3224-5274

Washington, D.C.

Internal Revenue Service
950 L'Enfant Plaza, S.W.
CP:IN:D:CS
Washington, DC 20024 USA
Tel.#(202)874-1460
FAX#(202)874-5440

Tax Forms and Publications

Internal Revenue Service
Forms Distribution Center
P.O. Box 85627
Richmond, VA 23285-5627 USA

Internet

World Wide Web—
<http://www.irs.ustreas.gov>
FTP—<ftp.irs.ustreas.gov>
Telnet—[iris.irs.ustreas.gov](telnet:iris.irs.ustreas.gov)

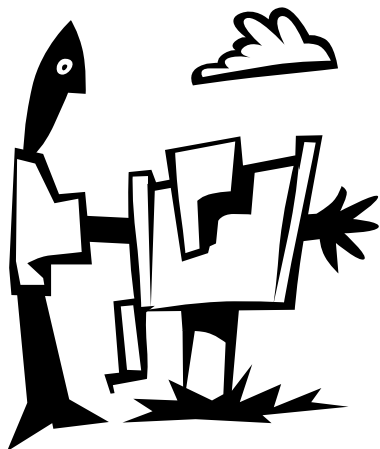
Modem

703-321-8020

Fax

703-487-4160 from the fax machine to get common tax forms and instructions

No Refund?



Expecting a refund, but haven't paid certain bills? Federal law allows your income tax refund to be taken to pay off all or part of your past-due child and spousal support, delinquent student loans, income tax or other federal debts. If your refund was used to pay back what you owe, the IRS will notify you.

Taxes in Spanish

Where can you get tax help in Spanish? Publication 579SP, *Cómo Preparar la Declaración de Impuesto Federal*, has information in Spanish about which form to file, which filing status to choose, taxable and nontaxable income and some of the more common tax credits. Call 1-800-829-3676 to order.

Label and Envelope—A Good Idea

When filing a federal tax return, use the peel-off label and envelope that comes inside the tax booklet. Using them shortens the return's processing time and lessens the chance of misrouting mail or refunds because of hard-to-read handwriting.

Free Tax Help



Are you aware of all the resources the IRS makes available to you? To get the inside scoop on all free IRS tax services, order Publication 910. It describes year-round services, tax time assistance and frequently requested publications. To order Publication 910, use the order form in your tax package or call 1-800-829-3676. Here are some highlights.

Braille and Large Print Materials

Federal tax materials in Braille are available at Regional Libraries for the Blind and Physically Handicapped in conjunction with the Library of Congress. These materials include Publication 17, *Your Federal Income Tax*; Publication 334, *Tax Guide For Small Business (for Individuals Who Use Schedule C or C-EZ)*; and Forms 1040, 1040A and 1040EZ, and Schedules A and B, with instructions. Large-print copies of Form 1040, its schedules and instructions are in Publication 1614. Large-print copies of Form 1040A, Schedules 1, 3 and EIC,

and their instructions are in Publication 1615. The copies can be used as worksheets to figure your tax.

Volunteer Tax Help

Do you or someone you know need help with your basic tax returns? If so, the Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) may be of service to you. Both provide specially-trained volunteers to prepare basic tax returns. VITA and TCE volunteers help older individuals, those with disabilities, and non-English speaking taxpayers with their taxes in locations convenient to their customers. Call the IRS office for the nearest location.

PRP Fixes Tax Problems

Do you have a problem with the IRS that has yet to be resolved? The Problem Resolution Program (PRP) can help resolve problems that you haven't been able to settle through normal channels. Call the IRS and ask for PRP.

Aliens Need Tax ID Numbers

Beginning January 1, 1997, the Internal Revenue Service will stop processing tax returns and refund claims listing aliens without valid Social Security numbers (SSNs) or individual taxpayer identification numbers (ITINs). Aliens who do not qualify for SSNs must get IRS-issued ITINs.

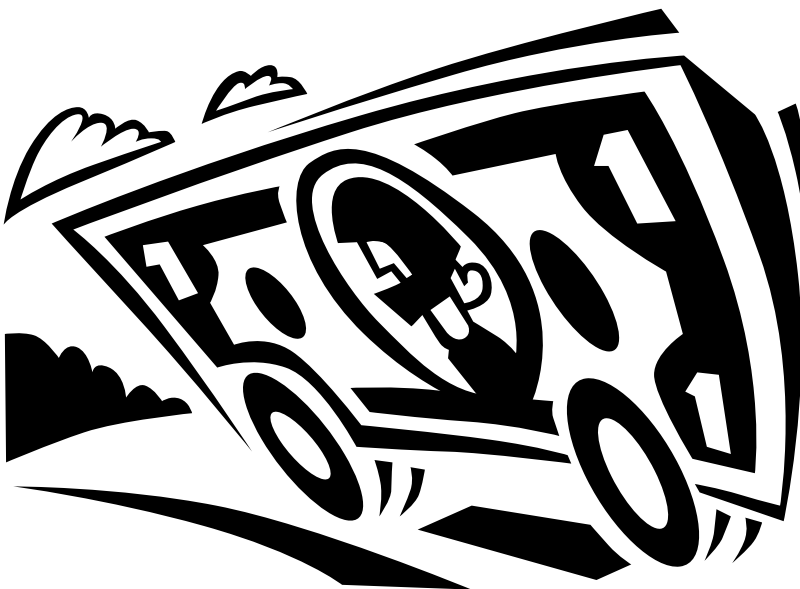
Foreign persons who need ITINs would include those:

- filing a U.S. tax return to report U.S.-source income;
- filing a U.S. tax return only to claim a refund of tax withheld;
- who are the spouse of a U.S. citizen or resident who elects to file a joint tax return;
- being claimed as a spouse for an exemption on a U.S. tax return; or
- being claimed as a dependent on another person's U.S. tax return.

In the past, the IRS has used temporary numbers to process returns involving those who can't get SSNs. Now, the IRS will instead suspend its processing of such forms until taxpayers provide valid identification numbers. The IRS began taking applications for ITINs in July and has issued a new Form W-7, "Application for IRS Individual Taxpayer Identification Number," for this purpose.

ITINs are not available for U.S. citizens or persons legally permitted to reside permanently or to work in the U.S. These taxpayers qualify for SSNs and should obtain them from the Social Security Administration by filing Form SS-5, "Application for a Social Security Card." The ITIN is for tax processing purposes only—it does not entitle the holder to Social Security benefits or change the holder's employment or immigration status under U.S. law.

Direct Deposit = Faster Tax Refunds



Want to speed up a tax refund? People who choose Direct Deposit can have their income tax refund deposited directly into their savings or checking accounts. Direct Deposit is more secure because there is no check to get lost, and takes the Treasury less time than issuing a check. So people may get their refund sooner and they don't have to make a trip to the bank.

Direct Deposit is available to people who file their federal income tax returns electronically, use Form 1040PC or send their returns to IRS through the mail. Those who file by mail should fill in the "Refund" area of their tax return.

People should check with their

financial institutions to make sure they accept Direct Deposit, including joint refunds into individual accounts. They can also verify the correct routing transit number and deposit account number.

There are some limitations. Direct Deposit cannot be used when filing a prior year return. Also, Direct Deposit will not occur if the name on the tax return and bank account do not match. Nor will there be Direct Deposit of refunds into foreign bank accounts. If the Direct Deposit cannot be done, the IRS will send a check instead.

Direct Deposit is available for use on Form 1040, 1040A, 1040EZ, 1040NR or 1040NR-EZ.

Get the Number Right

Double check all Social Security numbers (SSNs) on tax forms and schedules. The IRS cannot process returns without correct SSNs, which can delay refunds. Here's a quick checklist of things to look out for:

- SSNs that have numbers transposed or left out;
- SSNs for all dependents born before December 1996 (use Form SS-5 to apply);
- Names that have changed

because of marriage or divorce. Notify the Social Security Administration (SSA) as soon as you have a change;

—Aliens who do not qualify for SSNs must get IRS-issued individual taxpayer identification numbers (ITINs). (Use Form W-7 to apply.)

It's worth taking the extra time to check all tax forms and schedules for correct SSNs.

Tax Filing Alternatives



Last year, over 22 million people put away their pencils and tax forms and reached for computer keyboards or telephones.

Through electronic filing, tax professionals and transmission services accepted by the IRS can send their clients' tax return data directly from their computers to IRS computers. People who owe taxes file when they're ready, then send the payment by April 15. Those who

get refunds can have them directly deposited into their savings or checking accounts.

In most states with income taxes, people can electronically file their state and federal taxes at the same time. The IRS has teamed up with state tax agencies to offer this one-stop service. Many tax professionals who offer electronic filing also offer joint federal/state filing.

Taxpayers who prefer to prepare their own returns can use a tax

preparation software program on their own home computer and then file their returns using a commercial on-line service or a transmitting agency. Or, they can use the print option, 1040PC, that comes with many tax preparation software programs. Unlike traditional forms that may have many blank lines, the 1040PC program prints only the lines that have entries. The result is a three-column list that fits on one or two pages for the taxpayer to mail to the IRS.

Finally, many people will be able to use IRS' TeleFile system. TeleFile lets eligible people with simple tax returns file by phone. They call a toll-free number using a Touch-Tone phone and enter total wages, interest, tax withheld and other information from the TeleFile tax record. IRS computers figure adjusted gross income and any refund or tax owed while the person is on the phone. Those who are eligible will automatically get a TeleFile tax booklet in the mail.

Whether people choose the traditional way to file or one of these alternatives, they should always double check their return. And keep in mind that using correct Social Security numbers prevents processing delays, and a complete return address and enough postage will help make sure a mailed return gets to the IRS on time.

New IRS Form W-4V

People who get certain government payments can now opt to have federal income tax withheld from them. These payments include unemployment compensation, Social Security or tier 1 railroad retirement benefits, Commodity Credit Corporation loans or certain crop disaster payments.

Simply fill out Form W-4V, "Voluntary Withholding Request,"

and give one to each payer from which you receive these types of payments. Since federal income tax is not required to be withheld from these payments, this request is voluntary. However, the choice may eliminate the need for some people to file quarterly estimated tax payments.

Call 1-800-829-3676 to get Form W-4V.



File by Phone

The Internal Revenue Service's file-by-phone system, TeleFile, is now available to about 26 million people nationwide. TeleFile provides quick and paperless tax filing.

Those who qualify to TeleFile can just pick up the phone and enter their tax information. People who may be able to TeleFile will get a special tax booklet in the mail. They can call the toll-free TeleFile number from any Touch-Tone phone 24 hours a day, seven days a week.

When a taxpayer calls, the TeleFile system gives prompts to enter wage and tax information from Form W-2. TeleFile calculates the total taxable income, adjusted gross income, amount of refund or balance due, and even the earned income tax credit for those who qualify.

Once callers get their confirmation numbers, they should write them on their TeleFile tax record. Then hanging up the phone completes the filing of the tax return. Hanging up before hearing the confirmation number means the tax return has not been filed. The entire call takes less than 10 minutes. The IRS can then issue any refund check due within three weeks. Or taxpayers can have their refund deposited directly into their savings or checking account. Any payment owed should be mailed to the IRS by April 15, 1997.

This year, TeleFilers can be either single or married, filing jointly, with no dependents. Their total taxable income must be less than \$50,000. This income may include wages, tips, taxable scholarships or fellowship grants, taxable interest of \$400 or less, unemployment compensation, and Alaska Permanent Fund Dividends. Also, the taxpayers must have filed a tax return previously and not have changed residences in the past year.

Only those people who get a TeleFile tax booklet in the mail can use TeleFile. TeleFile is available for the hearing impaired who have access to TDD/TTY equipment.

IRS Goes Electronic

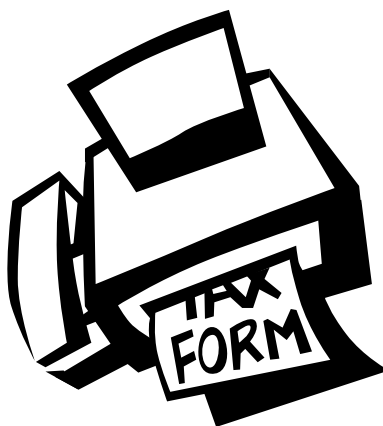
Regardless of blizzards, floods or dark of night, people can still get the tax help they need from the Internal Revenue Service. How? On their home computers through their modems or on the World Wide Web, through CD-ROM and through IRS Tax Fax.

IRS' World Wide Web site (<http://www.irs.ustreas.gov>) has everything from tax forms and publications to complete tax information for both individuals and businesses, all written in a simple, user-friendly format. Even the most novice Internet user will find the page easy to navigate. The FTP address is <ftp.irs.ustreas.gov>, and the IRS Telnet address is <iris.irs.ustreas.gov>.

For those not on the Internet, IRS has an electronic bulletin board service that provides tax forms, publications, individual and business tax news and a variety of other helpful information. Dial 703-321-8020 via modem.

IRS also provides most tax forms and publications on CD-ROM. The CD may be purchased through the Government Printing Office by calling 202-512-1800. Subscribing libraries also have the CD for patrons to use to print out needed forms.

And finally, for those with access to a fax machine but don't have a computer, IRS can provide the most commonly used forms, many of the instruction sheets and the TeleTax topics. People may dial 703-487-4160 from their fax machines.



Errors Slow Refunds



Mistakes on an income tax return can slow down processing while the IRS writes to ask for corrections or missing tax schedules. Any refund that is due will also be slowed down. Many of the more common errors could easily be eliminated if people took the time to double check tax returns.

After completing the return, review each line to be sure that the right information is on the right line. Double check math to avoid mistakes in figuring total income, taxable income, balance due or refund amounts. Make sure that name(s) and Social Security number(s) are correctly written on each form and schedule. Also check the address. Changes can be made right on the label.

Many people make the mistake of using a tax amount from the wrong column in the tax table, or they forget to sign and date the return. On a joint return both husband and wife must sign and date the return.

One last reminder to those rushing to meet the tax deadline on April 15th at midnight, put the correct postage on the envelope before dropping it in the mail.

Pick the Right Tax Preparer

Finding an income tax preparer that suits your needs can be tricky. You may want to ask yourself these questions during your search to help you make the best choice. How complicated is your tax situation? Do you know others who have gone to the preparer and could tell you about the preparer's service? Will the preparer be there later in the year, or in a year or two, to answer questions on your return? The answers to these questions will help you make the right choice.

IRS Is On-line

The IRS has tax forms, publications and other information available on-line. Access through the Internet via the World Wide Web (<http://www.irs.ustreas.gov>); file transfer protocol (<ftp.irs.ustreas.gov>); or Telnet (<iris.irs.ustreas.gov>). To access by modem, dial 703-321-8020.

Just Call for Tax Help



The Internal Revenue Service offers tax help in print, through recordings and automated refund status programs, and through computer. Here are some helpful phone numbers to remember at tax time and all through the year. Numbers beginning with "1-800" are toll free.

- To order forms and publications, call IRS 1-800-829-3676.

Most publications, some in Spanish, are listed in Publication 910.

- To get forms and instructions via fax, dial 703-487-4160.

Dial from the fax machine for the most commonly used forms.

- To order a CD-ROM with most IRS forms and publications, call the U.S. Government Printing Office's Superintendent of Documents at 202-512-1800.

Ask for stock number 648-095-00004-0.

- To hear recorded tax messages on TeleTax, call IRS

1-800-829-4477.

Over 140 messages, some in Spanish, to assist people.

- To get automated refund information, call IRS 1-800-829-4477.*

*Publications 910 and 579SP (Spanish) have details (*California residents, please check either publication for correct phone number in your area).*

- To get tax assistance for the hearing impaired, call IRS

1-800-829-4059.

Must have access to TDD equipment.

- To reach IRS services via computer for federal tax forms, publications and other information:

Access via the Internet—

World Wide Web

<http://www.irs.ustreas.gov>

File transfer protocol

<ftp.irs.ustreas.gov>

Telnet

<iris.irs.ustreas.gov>

Access by modem 703-321-8020

Taxes Made Easier

Preparing your federal income tax returns can be made easier, just make sure you keep track of all your records throughout the year. You should start with a copy of this year's return. Add to that any canceled checks, receipts and records that will help when you file your next tax return. By keeping your income and expense records in good order, you can save hours of searching at the end of the year and make tax filing a lot easier.



At Moving Time

Moving? Tell IRS. If IRS does not have your current address, your tax refund or any letters about past returns may not reach you. Send Form 8822 as soon as you move. Don't let your refund get lost or returned to the IRS.

Name Changed? Change Number

If you change your name for any reason, such as marriage or divorce, notify the Social Security Administration (SSA). Your name and Social Security number on your tax return must match those SSA has on record, or there can be a delay in getting your federal income tax refund.

Sending Mail to the IRS?

Always check mail to the IRS for enough postage and complete addresses—both the return address and IRS'. Otherwise, the mail could get lost or delayed, and that could cost penalties, interest and frustration.

Missing W-2

Employees should get their Form W-2 by January 31. Those who haven't received their W-2s shortly after that should ask their employer for one. If by February 15 there is still no W-2, call the IRS for help at 1-800-829-1040.

Simplify Your Tax Form



It is getting easier to file EZ—Form 1040EZ, that is. The 1040EZ is for couples and singles claiming no dependents, having less than \$50,000 total income from wages, salaries, tips, scholarships and interest, which must be less than \$400.

Although people usually get the same type of form they used to file their return last year, everyone should review their tax situation annually. A shorter form may be better this year.

Choosing the simplest tax form that lets them report all their income

and take all the credits and deductions they are entitled to may save people time and money. The shorter forms, such as Form 1040EZ or 1040A, reduce the possibility of errors, so people have less need to write back and forth with the IRS.

The tax package explains the different tax forms. To get this information in Spanish, order Publication 579SP, *Cómo Preparar la Declaración de Impuesto Federal*. Forms and publications can be ordered by calling 1-800-829-3676.



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